THE MIND OF THE CITY 1870–1914

By S. G. CHECKLAND

'. . . how far mercantile men can be considered competent to form an opinion on any other business than their own is rather a question'.[1]

I

In the early nineteenth century the City of London had produced a number of men of business capable of general reasoning: Ricardo, Tooke, Baring, Thornton, and others. Was this tradition maintained after 1873? Was the City, when confronted by the implications of the Great Depression, still a repository of systematic understanding to which politicians seeking wisdom could have recourse, or was it a mere aggregate of specialists, each with a horizon no broader than current bargains?

By the time the crisis of the seventies overtook England the City had attained its dominant status as the great money-engine of the world. Its members were fully conscious that it was now the centre of the financial universe, and that it had had much to do with the marvels of the last half-century. Yet, it was clear that a persistent failure of return to capital had occurred. Domestically the City was no longer the unrivalled voice of English commerce that it had formerly been.

The provincial traders and industrialists were now demanding attention. Such men, once so powerful in the free-trade agitation in the first half of the century, had found too often that in the great phase of expansion of the third quarter-century, governments wanting economic advice sought it from the traditional source—the City. It was well known that Disraeli took his problems to Lionel Rothschild, and Gladstone to Lord Overstone.[2] But the lengthening depression and continued unprofitability of capital directed attention to the realities behind the borrowing-and-lending façade—in short, the structure of British industry. Not unnaturally, some politicians began to think less in terms of liquidity problems, and more about industrial ones. So many of the difficulties confronting the plaintive industrialist seemed to show that a free market for funds was not enough. Moreover, Lombard Street, concerned with the provision of circulating capital, had little knowledge of the long-term finance of industry.

The provincials did not, on the whole, begin their reasoning from the assumption that the primary guide to policy was the preservation of such arrangements as would maintain the world position of the London markets.

[1] *Select Committee on Bank Acts*, 1858, Evidence, Q. 4276, Joshua Dixon.
[2] Henry Higgs, C.B., *Financial Reform* (London, 1924), p. 44.

Downloaded from https://academic.oup.com/oep/article-abstract/9/3/261/2362255 by guest on 25 October 2019

The Midland industrialist was vulnerable to the suggestion that reciprocal restrictions against foreigners should be adopted, whenever recession appeared. Liverpool, Manchester, and Lancashire generally provided many protagonists of bimetallism from traders to South America and the East, and from among the spinners and weavers of Oldham, Burnley, and elsewhere, who feared the effects of the depreciation of Indian silver on their cotton goods sales. From the North too came a long and persistent rearguard action against the Bank Act of 1844, lead by George Rae.[1] Of the two major inquiries—on the Depression, and on the Precious Metals—the provincial spokesmen at least held their own with the metropolitan. Such views represented a number of *ad hoc* attacks on the free market and the gold standard. They constituted a challenge to City men to demonstrate how the system as a whole represented the greater good, even though subject to stress. This the City did not do; it relied rather upon attempts to beat down each attack on its own terms.

But the City retained certain advantages in the matter of gaining the political ear. It was still the case that, in spite of the growth of other ideas, the economic weapons acceptable to the politicians were confined to monetary and fiscal techniques—just the matters in which the special competence of the City was thought to lie. The mere scale of operations by the City magnates seemed to demonstrate their powers of comprehension. Finally, the City view, in spite of one or two contentious issues, was more unanimous than that of the provincial industrialists.

The City, since the early nineteenth century, had been dominated by a sort of financial aristocracy—the investment bankers or issuing houses, headed by Rothschild and Baring. They presided over the export of capital by the flotation of foreign loans, and also handled the new issues of the British Government. In the main they avoided sponsoring domestic issues in England except where these were very large, or had official backing as in the case of public utilities.[2] In short, they controlled the access of governments to the London money market; they stood between governments and their objectives, so far as these depended upon finance. Disraeli had described them in *Endymion* as 'the mighty loan mongers, on whose fiat the fate of kings and empires sometimes depend'. The politicians of the day in England, unlike those of Germany and France, struggled to convince themselves that finance of this sort was a matter distinct and separate from the functions of government,[3] Sir Edward Grey in particular

[1] London bankers had little real appreciation of the conditions of country business (Palgrave, *Jnl. Institute of Bankers*, v, 1890, p. 60). Hereafter *J.I.B.*

[2] F. W. Paish, 'The London New Issue Market', *Economica*, 1951, p. 2. For company promotion see J. H. Clapham, *Economic History of Modern Britain*, iii (Cambridge, 1928), p. 206; H. O. O'Hagan, *Leaves from my Life*, 1929.

[3] James Bryce, *International Relations* (London, 1922), pp. 104, 111.

Downloaded from https://academic.oup.com/oep/article-abstract/9/3/261/2362255 by guest on 25 October 2019

strove against increasing odds to preserve this failing distinction.[1] Marshall was well aware of the problem. 'My first law in the constitution of a Democratic government', he said, 'is this: Thou shalt not put thyself in a position to have undue monetary influence brought to bear upon thee.'[2]

When the politicians sought out the investment bankers, they did so for two reasons. As the greatest houses in the City, and enjoying international connexions, they seemed the best source of technical advice about the economy, its direction of movement, and possible reactions to changes in policy. Secondly, the politicians would often wish to make more particular soundings—would the City houses assist in the financing of a specific project? Thus, both general diagnosis and particular assent were sought. This involved far-reaching political contacts—with the Foreign Secretary over diplomacy, and with the Chancellor of the Exchequer over monetary and fiscal policy.[3]

Not surprisingly, by the last quarter of the century, high finance enjoyed a social status appropriate to its great influence. Not only must such men be sought out for advice; they were generous and effective hosts. This was the great hey-day of Rothschild entertaining in town and country: Holland House had yielded place to Ascott and New Court. Lady Battersea (herself a Rothschild) expressed the situation admirably: 'Ascott became known as a perfect week-end house for tired statesmen and men of business.'[4]

Like the politicians, the City took its lead from the investment bankers. The clearing-house bankers were ineligible for membership of the Court of Directors or the Governorship of the Bank of England, with the result that the investment bankers enjoyed a self-perpetuating control of the Bank and consequently of the overall supply of money. Thus the leadership of the City lay with houses dealing in the main with the various national funds rather than with the commercial bankers or the industrialists. The pre-eminence of this kind of lending did not reflect the essential structure of the British economy.

The relative strength of the investment banking houses underwent change over time. Rothschilds had reached the peak of their power and activity under Lionel, who died in 1879. The succession passed to the brothers, Nathaniel, Leopold, and Alfred, who, though all astute men of business and active sponsors of new projects, could not maintain the lead their house had enjoyed over all others. Barings had been expanding rapidly in this phase: the approach to parity was reflected in the simultaneous

[1] Gooch and Temperley, *Documents*, x, pt. 1, p. 243.
[2] *J.I.B.*, 1886, p. 447.
[3] There was much City indignation in 1888 when Goschen 'converted without adequate consultation with the bankers' (*J.I.B.*, 1888, p. 644).
[4] *Reminiscenses* (London, 1922), p. 49.

Downloaded from https://academic.oup.com/oep/article-abstract/9/3/261/2362255 by guest on 25 October 2019

elevation to the peerage in 1885 of the respective heads of the houses: Lord Nathaniel Rothschild and Lord Revelstoke. But the latter was over-optimistic in the Argentine, and his house took some years to recover from the nemesis of 1890. Towards the end of the century other influences were at work tending to reduce the dominance of the older houses: a new kind of moneyed man appeared in the City following Rhodes's initiative in Africa—headed by Alfred Beit and Barney Barnato. In addition, a new generation of investment financiers appeared around the turn of the century: Sir Ernest Cassel, Sir Henry Deterding, and others, under whose aegis there was an increasingly hectic intimacy between investment and diplomacy.

The great investment bankers presented an inscrutable front to the public. Except for the disclosures of the Baring crisis of 1890, the affairs of such houses were as confidential as those of the Foreign Office. Partly because of this the Rothschilds have remained in the wings of so much historical writing about the nineteenth century—taking the limelight briefly over Suez, or the Baring crisis, presiding over Victorian and Edwardian splendours, in an undefined way providing leadership in the City.

Success in investment banking depends upon correct judgement about the price of money for particular borrowers at a given moment. For a Rothschild, with enormous single projects—financing the Suez purchase, supporting the exchanges during the payment of the French indemnity, floating an Egyptian loan, the problem was: on what terms is money available?[1] Behind this was the whole complex of factors affecting the world economy. Yet the major financiers could bundle these elements together in their minds, and make a general guess about the course of the price of money. There was little need for overmuch refinement; in fact this would probably stultify such genius. For these men the leading barometers were adequate—Bank Rate, Sterling exchange, Consols, new issues, and the like. These, in conjunction with very considerable margins of safety, were enough. The fact that there was no real competition among merchant bankers further reduced risks. The Treasury, too, could be relied upon to be co-operative. Foreign loans were timed to fit with Bank of England and merchant bankers' actions. If the loan was to be judged on political considerations, even less economic analysis would be called for; indeed it is likely that these leaders of the City operated in fields in which assessments of politics and power were more important than economic diagnosis.[2]

[1] The commission charged was usually 2 per cent.: thus Rothschild made almost a million by the Russian conversion of 48 millions. (*Pall Mall Gazette*, 7 Jan. 1890).

[2] It should also be noted that the growth of lending to foreign States had brought new sophistications of psychological warfare. In the 1870's, for example, defaulting governments would offer composition to their creditors on the basis of the market price of their obligations, having already depreciated the market by not complying with their undertakings. But the investment bankers could take care of themselves in such a situation.

Downloaded from https://academic.oup.com/oep/article-abstract/9/3/261/2362255 by guest on 25 October 2019

If the investment bankers were inscrutable concerning their own operations and their significance, they were even more so in the matter of discussing in public the economic problems of the nation at a philosophical level. They joined in the general City attack upon the bimetallists,[1] they disapproved of Mr. Gladstone's Irish policy,[2] and Lord Nathaniel expressed warm hostility to the proposals of Mr. Lloyd George. In 1907 he condemned the incipient welfare state: 'Stocks are low because Governments all over the world are hitting at capital.' *The Economist* curtly rebuked him: 'We cannot help wishing that one who stands on so high a pinnacle of finance could look at public policy without using the spectacles of prejudice and party.'[3] So far as the public sources indicate, there was no attempt to intellectualize the City and its operations. Though the Webbs could persuade Rothschild to contribute £5,000 to the new London School of Economics, they knew that his mind, and that of his class, was wholly unscientific.

The giants were not the only silent element in the City: mute also were most of the operators who conducted its affairs—the bill brokers, produce merchants, insurance and real estate men, and stockbrokers. Each was a specialist in a particular market to which most of his attention was devoted; he viewed the City from the point of view of the type of asset in which he dealt. William Lidderdale, partner in Rathbone Brothers, produce merchants, and Governor of the Bank of England during the Baring crisis, was perhaps typical of this group—not greatly interested in anything but the factors affecting the immediate course of prices.[4] The giants of the City were largely enigmatic, and the mass of its operators were the prisoners of immediacy.

In a sense the majority of City men were without principle in that they took no kind of social view of their actions. These were the men who moved their assets about between the City markets, seeking maximum return, or who sponsored projects to attract the assets of others. *The Economist* in 1875 pointed out that the formulae of political economy, so often repeated by literary men, who through newspapers and reviews governed public opinion, served merely to obscure the problem posed by the rapidly growing number of men who were operators and promoters.

[1] Yet, it was from among the merchant bankers of the City that the most heterodox monetary views came. A number of those dealing with the Far East and with South America, where silver was the principal currency, embraced bimetallism. In London, as in Bordeaux and Hamburg, it was the traders affected by the monetary confusion who proposed remedies. Henry Hucks Gibbs and Henry R. Grenfell, both heads of important merchant banking houses trading in Chilean nitrates and copper, both sometime Governors of the Bank of England, were the untiring protagonists of the remonetization of silver.

[2] B. E. C. Dugdale, *Arthur James Balfour* (London, 1936), p. 97.

[3] 12 Oct. 1907, p. 1718.

[4] There were, of course, exceptions. They included Sir Henry Fowler, solicitor, who placed very large sums of provincial Nonconformist money in the City, who became Financial Secretary to the Treasury and eventually Secretary of State for India.

Downloaded from https://academic.oup.com/oep/article-abstract/9/3/261/2362255 by guest on 25 October 2019

Such economists 'who are always repeating the old formulae of economic science, about the "wages of superintendence", the "reward of abstinence", "the cost of insurance", simply throw dust in their own eyes'.[1] It was necessary to face the fact that a new psychology of finance was appearing. To say this was to concede that the City, far from being merely a collection of objective markets, now offered increasing scope for adroit operation and the exploitation of strategic opportunity. Contemporary commerce, said *The Economist*, 'is as difficult and full of problems which fascinate the intellect in a certain somewhat narrow way, as war or politics'. This meant that a particular cast of mind was likely to rise to the top, not motivated by simple money gain, but by the desire to exercise and assert the faculties now rendered so powerful. Such men are the more driven to assert themselves in the markets of the City because the world at large does not understand or honour such qualities. The investment banker or the established commercial banker found a considerable place in London society; the new men were devoid of grace, culture, or intellectualism of a recognizable kind. Great social danger was involved, for such men were obliged by their own faculties to seek self-expression in the City.[2] Yet the City was not without respect and admiration for them. Though the leaders of the City might look askance, for many observers their failures were redeemed by their very scale and verve—Albert Grant whose Emma Mine was a miniature South Sea Bubble, Whitaker Wright whose Globe Insurance Co. burst with such destructive force, Jabez Balfour, so greatly admired by Thorold Rogers, who served a prison term for real estate frauds. Those who shook hands with Balfour as he left the dock, or raised their hats to the body of the suicide Whitaker Wright as it was carried from the Law Courts, were saluting the victims of unpredictability. These were the men who had stepped in to exploit the gap left in the English capital market by the preoccupation of the investment bankers with foreign loans and the refusal of the commercial bankers to follow the German practice of lending at longer term to domestic borrowers.

Though in one sense the leadership of the City lay with the issuing houses and the Bank of England, in another sense it lay with the commercial bankers. They accounted for the bulk of City utterances in the *Bankers' Magazine*, in discussions at their own Institute of Bankers, by taking a substantial part in the proceedings of the Statistical Society, in evidence at various public inquiries, and by independent publications. The dominant figures were Bertram Wodehouse Currie of Glyns, and Sir John Lubbock, later Lord Avebury. Currie[3] was the fine flower of City orthodoxy. A

[1] 18 June 1875.
[2] *The Economist*'s remedy was wider culture: 'Culture always diminishes intensity.'
[3] See Obituary, by A. S. Harvey, *Economic Journal*, 1897.

Downloaded from https://academic.oup.com/oep/article-abstract/9/3/261/2362255 by guest on 25 October 2019

friend in his youth of Grote and John Stuart Mill, he was an ardent Gladstonian—uncompromising free trader, anti-imperialist, Home Ruler, and protagonist of sound money. He came of an old banking family, maturing in the great halcyon days of the Lombard Street private bankers. So strong was his advocacy of gold that, apparently forgetful of the attitude of City men in the early years of the century, he announced in the 1880's: 'I believe in the inherited preference for gold . . . I know the feeling of the class to which I belong.'[1]

Lubbock, as presented by his biographer,[2] was the *beau ideal* of the City banker. Of banking antecedents, gifted with instinctive power of penetrating to the heart of a continuous succession of trading problems, unshaken by rumour or the unforeseen, eschewing the merely speculative, with a broad base of assets to support all his undertakings, unfrightened by the mere scale of his operations, supremely confident in the value of his function, yet, withal, no mere accumulating philistine, but an appreciative patron of the arts and sciences. As became the friend of Darwin, he was anxious that economic discussion should be informed by as much data as possible; he himself sponsored the publication of the Clearing House statistics,[3] and urged that the banking data presented by the Committee of 1857 should be kept up to date.[4] He was the first President of the Institute of Bankers, founded in 1879, to study and discuss not only banking, but the wider aspects of political economy. But for all this, the processes of the City, though they provoked him to a few minor contributions, were not worthy of his intellectual mettle.[5] He came down largely on the same ground as Currie—abhoring the national debt, clinging to the gold standard, and resisting departures from the monetary arrangements upon which the Bank Act of 1844 had set the seal. Currie and Lubbock were the leading representatives of the great age of private bankers.[6]

But there were also those whom we may call the banker-scholars: J. W. S. Gilbert, John Henry Norman, Henry Inglis Palgrave, whose works showed a much greater willingness and capacity to reason about banking policy. These represent perhaps the furthest systematic effort in the City to understand its own processes.

Both the established bankers and the banker-scholars had misgivings about a third group—the joint-stock men who aspired to a greater scale of operations—men whose business conduct was not closely bound by canons

[1] *Second Report of Royal Commission on Gold and Silver* (1888), Evidence, 6817.
[2] H. G. Hutchinson, *Life of Sir John Lubbock* (London, 1914).
[3] *On the Clearing of the London Bankers* (London, 1860).
[4] *On the Bank Act of 1844* (London, 1844).
[5] A considerable number of City bankers, like Lubbock, were literary gentlemen exercising their talents in non-economic literature; others were banking antiquarians.
[6] It was Currie who led the break from private to joint-stock banking by converting Glyn's in 1885.

Downloaded from https://academic.oup.com/oep/article-abstract/9/3/261/2362255 by guest on 25 October 2019

of safety, and whose minds were not susceptible, to a comprehensive attempt to understand the national significance of banking, but whose search for profits disposed them to support the issue of £1 notes and resist attempts to force upon them expensive reserve rules.

Senior civil servants, charged with the placing of large government funds, were among the greatest of City financiers. Here, it might be thought, were men who, being disinterested, would combine intimate knowledge of the working of the City with detached analysis. There were, indeed, intellectuals among them who aspired to approach their task in this way: Thomas Henry Farrer (Permanent Secretary to the Board of Trade), a founder of the Gold Standard Defence Association, Sir Louis Mallet (Permanent Under-Secretary of State for India), and others, were students of political economy. But such men found the older writers such as Mill unhelpful. Farrer preferred Bagehot, and Mallet sought guidance in the robust simplicities of Bastiat and Cobden. The senior civil servants (the first to be admitted under the competitive examination system instituted in 1855) shared, in the main, the City outlook. Farrer, Mallet, Greg, Sir Reginald Welby (Permanent Secretary of the Treasury), Sir Charles Freemantle (Deputy Master of the Mint), Sir Charles Rivers Wilson (Comptroller General of the National Debt Office)—all tended to the view that, with tariffs almost gone, the national debt under control, and a general belief in the wisdom of a minimal budget, the civil service had merely to work the system.[1] It is hardly surprising that Randolph Churchill, not long before becoming Chancellor in 1886, referred to the Treasury staff as 'a knot of damned Gladstonians'.[2]

When told to propose methods of doing particular tasks, usually under pressure of time, they, like the City men proper, could hardly query the whole basis of the system, even if so disposed, but turned their minds, with the aid of the great City houses, to locating and persuading potential lenders to finance the government's projects. When it was desired, in 1878, to raise a loan to rehabilitate Egypt, the City view was not questioned by the civil servants and politicians.[3] The first step was to approach Lord Rothschild; there was apparently no question of the government borrowing upon its own account. The Treasury was strongly averse even to the lesser proposition of a guarantee; these were matters for the individual judgement and hazard of financiers. But Rothschild would not act without some kind of official commitment. So Sir Charles Rivers Wilson, Sir

[1] Harcourt, on inspecting the file of a new junior at the Treasury: 'I see that Mr. Blank obtained high marks for history, which is good, and none at all for political economy which is even more creditable' (Sir Laurence Guillemard, *Trivial Fond Records*, London, 1937, p. 176.)

[2] W. S. Churchill, *Lord Randolph Churchill* (London, 1907), p. 571.

[3] Sir Charles Rivers Wilson, *Chapters from my Official Life* (London, 1916), pp. 172 et seq.

Downloaded from https://academic.oup.com/oep/article-abstract/9/3/261/2362255 by guest on 25 October 2019

Stafford Northcote, and Lord Salisbury composed a scheme: the English and French Governments were to nominate Commissioners to administer the surrendered Egyptian estates, collect revenues, and generally supervise the servicing of the debt. On this basis Rothschild proceeded. He had obtained the guarantee he wanted, but Parliament had not been directly asked to underwrite the loan. Again, the civil servants in India were anxious that the new enterprises, like the railways and irrigation works, should be state-owned, with revenues accruing to the government.[1] In this they followed continental rather than English or American precedent. But the upshot was a chronic difficulty in attracting finance to India; the City was averse to advances where the threat of nationalization was present. This brought together the old school of civil servant and the City men: Sir Louis Mallet employed all the arguments of the *laissez-faire* school against such state projects, especially as affecting budgetary practice. The London end of Indian government, holding City views, was at war with the Indian end.

In assessing the outlook of the City, the journalists must not be omitted. There had been 'financial writers', at least since Defoe's day. The older generation of the nineteenth century included R. H. Patterson, David Morier Evans, Hyde Clark, and, notably, William Newmarch. But these men were journalists only incidentally. The seventies saw a rapid growth in professionalism. Walter Bagehot, Robert Giffen, Arthur Ellis of the *Statist*, Arthur Crump of *The Times*, were a new phenomenon in the City. These men struggled to provide the City with a more comprehensive view of its own processes—to escape from narrow monetary debate. As became members of an emergent profession, they were not over-sympathetic to external theorists, especially academics. 'Theorists far away in the provinces', wrote Crump, 'can about as well form an opinion as to what City people ought to do under varying circumstances, as a man on land can decide the course that should be adopted on board a ship at sea.'[2] They ran into plenty of troubles, for it was not easy to comment upon City matters without being charged with puffing this or that project, or stimulating speculation or detonating collapse. Indeed Giffen recounted how, as a City editor, he was brusquely informed that his duty was not to give news or information, 'but to keep stocks at their proper prices'.[3]

II

Economic discussion in the City proceeded in two forms. There was the 'general theory' of the City—the view it held, however unexplored, of the

[1] Sir John Strachey, *The Finance and Public Works of India from 1868 to 1881* (London, 1882).

[2] *Theory of Stock Exchange Speculation*, p. 153.

[3] Giffen, *Stock Exchange Securities*, p. 162.

Downloaded from https://academic.oup.com/oep/article-abstract/9/3/261/2362255 by guest on 25 October 2019

operation of a free economy. Secondly, there was what we may call agenda theory—the kind of views expressed in debate about particular proposals. These provided two different levels of discourse, between which consistency was not always maintained. General theory was strongly held, but little debated in public. Agenda theory was a matter of strong conviction, loudly argued.

Most City men, in spite of their differences, shared two general ideas. They regarded the City and its system as sound, and they found contemporary economic theory barren. The very instability of the City was taken as a sign of its sensitivity to real events, and as evidence of the adjusting power inherent in free buying and selling. In spite of all the evidence of speculation and manipulation, in spite of all the shocks and surprises, the market as the provider of a true barometer was part of the City's outlook. If the City was in fact providing sound prices for funds, home and foreign, the rest of the system could not go far wrong. Upon this belief rested the whole institutional justification of the City.

Yet in the eighties and nineties many City comments departed from this simple view that the price of money was objectively determined. There was in 1880 an expression of opinion in the City to the effect that it would be possible to maintain the rate for loans by means of a combination among lenders, and that in this way the profitability of lending might be restored. But *The Economist*[1] sought to recall the City to an understanding of itself and to reassert the principle of automatism: the market for loans would be defeated in any attempt to combine, for many reasons. Competition could not in fact be controlled, foreign supplies of money would move in to take advantage of such a situation, the supply of funds for lending would be augmented by merchants and others who, finding their trade damaged, would themselves become lenders.

The suggestion had its origins in the progressive abdication, since 1866, of the Bank of England from the control of the discount market. This left the deposit bankers without a sound guide to the rate they should pay on deposits. Formerly, when the Bank made its own rate effective, they could follow the simple rule of paying 1 per cent. below bank rate. By the 1880's, with the rate unreal, this guide no longer existed. Here was a real dilemma for the City. Bank Rate was only a sound guide to the price of money if the Bank exerted itself to make it so.[2]

From the politician's point of view it was the price at which the govern-

[1] 21 Feb. 1880.

[2] It is worthy of note that though the Bank was high and dry above the market, going perhaps for a whole year without getting discount from other than its own customers, its discount officer was fully alert to the creditworthiness of City men, in case sudden crisis should appear. As the *Bankers' Magazine* put it (1890, p. 389): 'It has to keep a knowledge of men and force of character for use when required, as well as mere cash.'

Downloaded from https://academic.oup.com/oep/article-abstract/9/3/261/2362255 by guest on 25 October 2019

ment could borrow that was important. There had been misgivings among Chancellors about this for a long time. Gladstone maintained that the government, like any other borrower, was to some degree at the City's mercy. In 1854 a strong combination in the City had beared the funds to send up the rate of interest against the government, and had seriously damaged his conversion operation.[1] Further, the Bank and the City expected the government to accept their dominance: as Gladstone put it, 'The government itself was not to be a substantive power in matters of finance, but was to leave the money power supreme and unquestioned.'[2] It was to escape from this situation that he had established the Post Office Savings Bank.[3]

With the fall in interest rates accompanying the depression, the question took on an aggravated form. To what extent should the government take advantage of the lower price of borrowing? Childers had tried a major conversion operation in 1884. He was unsuccessful; his biographer[4] gave as the reason his failure to offer any inducement to the bankers by way of commission. That Childers felt that the City was asking too much seems borne out by his talk of seeking compulsory conversion powers.[5] In 1888 Goschen made the attempt. Lord Randolph Churchill expressed misgivings: 'In all probability the risk of defending in the House of Commons the terms which the great houses would require for their support would be too great to be run by the present government.'[6] But Goschen was successful in converting five hundred millions, paying a commission of 1*s.* 6*d.* per £100 to authorized agents. Clearly, the politicians had reason to be sceptical about the objectivity of the rates of interest ruling in the City.

But in spite of all the difficulties of self-comprehension that confronted the City, there was little sympathy for the attempts of the academics or others to perfect the theory of markets.[7] Jevons was unable to convey to City men the practical significance of his price theory. Most of them no doubt agreed with Giffen that 'in theoretical books of political economy on the general questions of supply and demand as regulators of price', the discussion 'tends to degenerate into a mere logomachy'.[8] For the City man, the thing was too self-evident to need discussion. In a sense this view was correct—if the problem is merely the marshalling and assessing the forces likely to impinge upon a particular price in the short run, the City man did not need the apparatus of the theorist. With the further problems to which value theory is the preliminary, distribution and

[1] John Morley, *Life of Gladstone* (London, 1907), vol. ii, p. 806.
[2] Ibid., p. 809. [3] Ibid., vol. i, p. 686.
[4] E. S. E. Childers, *Life of Rt. Hon. Hugh Childers* (London, 1901), p. 162, n. 2.
[5] *Letters of Lord Goschen* (London, 1946), p. 87. [6] Ibid., p. 88.
[7] John Dun, on *The Law of Value*, had a bleak reception at the Institute of Bankers (*J.I.B.*, 1879, p. 1).
[8] Among academics, Thorold Rogers shared the same opinion.

Downloaded from https://academic.oup.com/oep/article-abstract/9/3/261/2362255 by guest on 25 October 2019

instability, the City man had no intellectual concern. 'If there is one term of reproach greater than another which can be levelled at a Lombard St. banker', said John Martin, 'it is to say that he is a theoretical man'.[1] Instead the City man had his traditional lore: for example the old saying that business is never so good as when the market rate (not the bank rate) is 4 per cent.[2]

There were two lines of approach being made to the problem of instability in the seventies. Many active thinkers, like Jevons, were wondering whether the cycles of pulsations so long observed in nature were the fundamental cause of variation in economic activity; others, like his friend John Mills, were concerned to trace them to variations in human outlook, to prove economic fluctuations to be 'cognate with the science of mind'.[3] The City was not sympathetic to those who approached its arcana with the Olympian generalizations of physical or moral science. The City particularly enjoyed itself over sun-spots, to Jevons's intense annoyance.[4] John Mills was equally put out by the complacency of the City, and its scorn for 'the schoolmaster . . . the magician who is to steady our rates of discount, and save Lombard Street from its decennial fits of terror'.[5]

The City preferred its own way of dealing with crisis. There would be earnest discussion on the direction of the late over-extension, and accounts of the course of the crisis would appear. The City would then place a label upon the breakdown: excessive foreign loans, railway investment, post-war restocking, speculation in the Eastern trades, gold discoveries. This would go out to the country as the City view. There, so far as the City in general was concerned, the matter would rest. As recovery came, there was usually a tendency to look for the symptoms associated with the previous collapse (and possibly one collapse removed), and if these were weak or absent, to conclude that the expansion was sound. Little attempt was made to see the new phase as a unique development, to be comprehended not by looking for the reappearance of earlier circumstances, but as a set of relationships only to be understood by systematic thought.

But though the City rejected attempts to put discussion upon a new footing, it did, in fact, embody in its own thinking something of the two main aspects of the theories of Jevons and Mills. The City was always much preoccupied with harvest prospects and knew full well that it was dependent upon natural conditions. The City could form a pretty shrewd idea

[1] *J.I.B.*, 1887, p. 74: J. B. Martin.
[2] *J.I.B.*, 1886, p. 101: Henry Schmidt.
[3] *Proc. Manchester Statistical Society*, 1867–8, p. 13.
[4] *Journal Royal Statistical Society*, 1879, p. 71. Jevons in reply to Griffen: 'He must say that he really could never see what was amusing in it. The sun was about the most serious question of the day.' See also Jevons in *The Times*, Apr. 1879 (quoted in L. Hansard, *J.I.B.*, 1885, p. 35): 'I am repeatedly told that they who venture to connect commercial crises with the spots on the sun are supposed to be jesting.'
[5] *Manchester S. S.*, 1867–8, p. 40.

Downloaded from https://academic.oup.com/oep/article-abstract/9/3/261/2362255 by guest on 25 October 2019

of the probable effects on markets of the behaviour of nature. But they refused to go beyond the proximate. Every City man, moreover, knew that optimism and pessimism came in cumulative waves. Attention was increasingly drawn, especially among the journalists, to the tendency to press the level of activity higher and higher until breaking point, and then to join an enforced contest of skill in evading the losses of collapse. The growth of the credit system, according to Crump, had brought such uncertainty that in crisis fatalism was rife—like the peasant in the face of the elements, the City felt its lack of controlling power. To many it seemed that the capacity to anticipate future events from a given starting-point was an earning asset which, if generalized among all traders, was self-destructive—it was of its very nature a differential and the chief arbiter of success among individuals. To such minds the idea of a general statement of market relationships available to all was self-contradictory. It followed from all this that 'the schoolmaster' or, in modern terms, the intellectual, was conceded only a minor place by City men. His job was to improve factual knowledge, and to teach morality, in the sense of warning against over-speculation. But such morality involves arguing in a circle. If the bounds of legitimate speculation could be set for moral purposes, then the conditions of stability would be known.

Only a proposed reform could provoke the City to thought and discussion beyond the immediate course of markets. Then the City would debate, using theory and fact, and all manner of emphasis between short and long period, the cyclical and the secular. It was such proposals as the alteration of the Bank Act of 1844, bimetallism or, to a lesser degree, tariff reciprocity, that made the City audible to the country. This meant, of course, that the student of the mind of the City must view it through the darkness of polemic.

The City discussion of banking did not start from an attempt to state the general problem of credit provision. The terms of debate were set by two circumstances: the sense of relevance of City men, and the limits, as then conceived, of remedial action. For these two reasons, the City view of the banking problem was dominated by one prime consideration—how to deal with illiquidity. So long as the banking system could contract without losses, then all was well. 'But to control investment, or equalize prices', said Grenfell, sometime Governor of the Bank, 'would involve the banker in a labyrinth of difficult problems which would not be solved as soon as his bank would be dissolved.'[1]

Though never wholly abandoned, banking debate was fairly quiescent

[1] *J.I.B.*, 1886, p. 96. The bankers' hostility to 'theorists' was no doubt partly due to their unwillingness to see a renewal of public debate on a matter better left to 'the trained minds that had to deal with it' (ibid., 1885, p. 455: A. S. Harvey).

Downloaded from https://academic.oup.com/oep/article-abstract/9/3/261/2362255 by guest on 25 October 2019

between the Overend Gurney crisis of 1866 and the Baring crisis of 1890. In the interval City men congratulated themselves that the handling of commercial crises had been mastered. But the nineties saw a revival of banking debate, with renewed vigour.

There were two ways of meeting this problem: the removal of the fiduciary issue stipulation of 1844, allowing the Bank full discretion, in the hope that it could, by wise timing, rehabilitate confidence; or secondly, concentration upon the reserve problem, both as affecting the Bank and the City in general. Though the Bank Act had its enemies, like Newmarch, in general the City accepted it. But there was growing misgiving about reserves. The *leitmotif* of Bagehot's *Lombard Street* in 1873 was the responsibility of the Bank as the guardian of the central gold reserve. But by the nineties, there were real misgivings whether the Bank could discharge this role. To Goschen, who was Chancellor during the Baring crisis, it seemed that new reserve measures were necessary. The City, in its alarm, was, led by Rothschild, sure to 'put the screws on' the government to provide direct aid to Barings.[1] Here was a nice problem for Goschen, the City man turned politician: refuse direct aid and incur censure for failure to prevent collapse, or grant it, and be exposed to attacks in Parliament for 'unnecessary and unjustified' government aid to a private firm.[2]

This was in crisis; there is little sign that the City actively concerned itself over banking policy in the expansion, for City men were too busy participating. The banking community was operating in a changing context of which they often failed to take account. The electric telegraph, for example, had greatly lessened the demands of merchants for funds, but the bankers, proceeding on the basis of the older rules of liquidity, finding themselves with a decline in loans in this direction, were prepared to lend elsewhere, thus making money inappropriately available, and detonating speculation in the produce markets or at some other point. When diminishing marginal profitability of capital occurred, there was nothing in the generalized, rough and ready liquidity rules of the banks to tell them so, with the result that the supply of credit would be maintained in the face of failing outlets.

A new attitude appeared in the Baring crisis—the principle of a mutual guarantee to sustain liquidity while the situation settled, rather than the usual *sauve qui peut*. It would appear to be the merest common sense to adopt the principle later dubbed 'commercial salvage'. If the City was to keep the older monetary and banking arrangments intact, and also keep the government out of the money market, there was clearly no alternative

[1] A. R. D. Elliot, *Life of Lord Goschen* (London, 1911), p. 170.

[2] The practice of governmental supervision of liquidation by Commissioners issuing Exchequer bills, several times adopted during the French Wars, had dropped out of the City's view of proper action.

Downloaded from https://academic.oup.com/oep/article-abstract/9/3/261/2362255 by guest on 25 October 2019

to mutually supporting one another. Paris had set the example two or three years earlier.

The Baring experience was in a sense domestic to the City; though foreign lending was much involved, the initiative came from a City house. In the nineties, however, the liquidity problem took on an even more difficult form. London was becoming increasingly vulnerable to external gold drains of an arbitrary nature, arising from the needs or policies of foreign states and foreign nationals holding reserves in the City.[1] Sensitivity sometimes went very far: in 1890 the Czar provoked a relapse on the Stock Exchange by publicly toasting the Prince of Montenegro as his only friend.[2] Moreover, there was a growing volume of securities in London that could not be readily realized on the markets of the Continent should London liquidity be threatened—Indian, colonial, and American. Further, though London was the only effective general source of gold, the Bank of England held on average only 24 millions, against 95 in gold and silver at the Bank of France, 40 at the Bank of Germany, and 142 in the United States Treasury.[3] It was becoming clear that variations of Bank Rate as a corrective was too disruptive of the home economy, and indeed was often impotent to staunch the flow of gold.

Many proposals were made. Robert Lowe's 'elastic issue' Bill of 1873 failed. Suggestions were made that minimum reserve regulations should be enforced by law upon the commercial banks, on the American plan. Goschen proposed the revival of the £1 notes, the proceeds to be held as a central gold reserve, with provision for an extension of Bank of England issues in appropriate circumstances. But the proposals were abortive; the City kept the state out of banking.[4] In fact Bagehot's view of the primacy of the Bank was reasserted. It was the London bankers who provided the reserve of the Bank, said Lubbock and others, and it was the Bank's responsibility to see that it was adequate.

Undoubtedly the most sustained and general controversy in the City in the last quarter-century centred around bimetallism. Here was an issue at once intractable, yet touching all the fundamentals of the money system and much else besides. If it was unsound, the City must be disrupted, the trade to India and the East confounded, international capital movements distorted, rivals possibly favoured. If the price level was at the mercy of arbitrary forces, this in turn reacted on the wages share, and upon that

[1] J. W. Birch described how, when he was a young man in the fifties 'we were always talking about the balance of trade and trade returns. We now know that the balance of trade has very little to do with our international banking. The great thing which governs us is the enormous transactions on the Stock Exchange, in France, in Germany, and in the United States' (*J.I.B.*, 1888, p. 509).

[2] *Bankers' Magazine*, 1890, p. 28.

[3] G. J. Goschen, *Speech at Leeds* (London, 1891), p. 14.

[4] H. S. Foxwell, *Papers on Current Finance* (London, 1919).

Downloaded from https://academic.oup.com/oep/article-abstract/9/3/261/2362255 by guest on 25 October 2019

perennial problem, the Land Question, both at home and in Ireland. In a sense, bimetallism was a challenge to answer all questions at once. The debate began in 1873[1] (though anticipated around the mid-century) reached its peak with the Royal Commission of 1888, and was still going strong at the end of the century.

The bimetallists were strongly anti-deflationary. They used most of the traditional arguments about the evils of falling prices—the incubus upon business, the increasing weight of debt, and the like. The remedy lay in increasing the total of monetized metal. The monometallists had a formidable list of objections. The erratic conditions of supply of the two metals under modern conditions made the official fixing of ratios impossible. Gold was the basis of all Britain's outstanding contracts; bimetallism would be a form of repudiation. On the other hand, Britain, as a great world creditor, by promoting world inflation, would reduce the value of her foreign assets. By raising primary produce prices the change would turn the terms of trade against Britain. Then there was the question of real wages: many monometallists made much of the falling price level as beneficent in that prices led wages downward, producing rising real wages. Or alternatively, the price fall, whether good or bad, was a non-monetary phenomenon, arising from enormous improvements in productivity. The works of the American underconsumptionists like Wells and Atkinson were frequently quoted. These argued that the fall in prices over the whole range of products had been confronted by a relatively inelastic demand, especially for primary products. Thus the sound money men, with their belief in automatism, were led in their debate with the bimetallists to the very edge of a theory of glut.

It was from the Tory side that most support came for projects of change —revision of banking legislation, bimetallism, and tariff reform. Gladstone himself gave the official Liberal view, namely that all such proposals had their origin in the desire to revive artificially the profitability of capital. 'I cannot disguise from myself', he said, 'that fact that many of the most zealous bimetallists have also been most zealous protectionists. . . . They have smelt in these . . . the rise of prices all round—not as the result of increased consuming power, and increased demand, but a rise of prices for the greater remuneration of producers.'[2]

At all levels of discussion in the 1873–1914 period it is difficult to avoid the impression of growing confusion and helplessness in the City. Because thinking was only provoked by immediate proposals, it could not transcend

[1] After 1870 Germany began to consolidate on a gold basis, demanded the French indemnity in gold, and poured her demonetized silver into the French mints and those of the Latin Union. In self-defence the latter closed their mints to silver in 1873; the U.S.A. followed suit in the same year. Thus the mechanism of equivalence between gold and silver was lost in the first year of the great depression.

[2] *Bankers' Magazine*, 1890, p. 960.

Downloaded from https://academic.oup.com/oep/article-abstract/9/3/261/2362255 by guest on 25 October 2019

the past, but merely amplified old arguments. Growth and stability were considered almost wholly in monetary and banking terms, which kept the discussion in the old liquidity groove. Bagehot ruefully observed of the tendency to hark back to the Act of 1844 that 'A single sentence respecting it is far more interesting to very many than a whole book on any other part of the subject.'[1] The bimetallist debate was notoriously barren. Goschen remarked that, except for love and religion, it had driven more people mad than any other single subject; indeed it was rumoured in high places that Goschen, in spite of a lifetime of financial experience, declined to return to the Exchequer because he saw a recrudescence of the bimetallist question.[2] The banking and monetary discussions of the nineties petered out to become a subject of after-dinner joking. The revived problem of protection provoked no more effective reasoning. City sympathies were growing. In the general election of 1910, in the midst of bad trade, there was much City enthusiasm for a tariff, strengthened by the specious argument that in this way the cost of the new warships could be passed on to the foreigner.[3] There was a kind of demoralization of intelligence, in sad contrast with the first two decades of the century. Those who sought this reform or that could not overcome the burden of proof which always lies upon those who stand for change.

Much had altered in fifty years. By the 1870's the City man had largely abandoned even the tenuous intellectualism of the days of the Bullion Report. Public inquests on successive commercial crises had become less and less penetrating; the *Report of the Committee on the Bank Act of 1858* deliberately eschewed 'subjects of controversy'.[4] Partly, this was because the City had, in discharging its ever-growing functions, become frighteningly complex. The proliferation of participants and the remoteness of the linkage between particular behaviour and general outcome reduced most men of business to muteness or to explanations in terms of single or simple causes. Mark Pattison, a great admirer of the Ricardian achievement, looking out upon the world from Oxford in 1885, pointed to contemporary intellectual defeatism: 'Already we are beginning to find our wealth, population, and materials too vast for our capacity of system. We have no system in anything; our affairs go on by dint of our practical sense; a stupid precedent supplying on all occasions the place of method.'[5]

There were, of course, some City men who shared Pattison's fears of this failure to understand contemporary experience. They pointed to the dramatic changes that had overtaken the City in their own lifetime, and wondered whether a simple faith in free markets was enough. They

[1] *Lombard Street*, p. 2.
[2] Lady Victoria Hicks Beach, *Life of Sir Michael Hicks Beach* (London, 1932), vol. ii, p. 26.
[3] A. Huldermann, *Alfred Ballin* (1922), p. 158.
[4] *Report*, p. xxiii.
[5] *Memoirs* (London, 1885), p. 459.

Downloaded from https://academic.oup.com/oep/article-abstract/9/3/261/2362255 by guest on 25 October 2019

discussed the changes in technology—locomotives, steamships, the electric telegraph, the new metallurgy, new methods of doing business, the rise of limited liability, the extension of joint-stock banking. But in the main the City reaction was different. It was impossible to embrace those things in general reasoning. Indeed, though the world might think of the City in a general way as the brain of the world's commerce, the City itself had few illusions. It could judge a particular proposition, or advise governments on the short-term effects of particular policies. But to understanding the laws governing the general working of the economy it made no claim. As one journalist put it: 'The infinite ramifications and endless reactions are beyond the grasp of any one but an imposter . . . if there is a right thread of theory, it must be so tangled as to be worse than useless.'[1]

THE UNIVERSITY OF GLASGOW.

[1] *Bankers' Magazine*, 1893, p. 216.

Downloaded from https://academic.oup.com/oep/article-abstract/9/3/261/2362255 by guest on 25 October 2019